Office of the Secretary
Service Date
May 31, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO SHARE REVENUES WITH CUSTOMERS IN CONFORMANCE WITH ORDER NOS. 30978 AND 32424	CASE NO. IPC-E-12-13 ORDER NO. 32558

On March 2, 2012, Idaho Power Company applied for authority to share revenues with customers based on year-end 2011 financial results. The Company's rate-sharing proposal has two components: (1) PCA Sharing, which reduces net rates by $27,098,897 and reduces rates for all customer classes by 3.25% relative to current base revenues, or by 3.21% in total billed revenues; and (2) "Pension Balancing Account Sharing," which results in a $20,324,173 net reduction to the pension balancing account. Application at 4, 6. The Company proposes that the rate changes take effect on June 1, 2012, to coincide with the requested effective date in the Company's 2012 power cost adjustment (PCA) application in Case No. IPC-E-12-17.

On March 20, 2012, the Commission issued a Notice of Application/Modified Procedure setting a May 4, 2012 comment deadline and May 11, 2012 reply deadline. The Industrial Customers of Idaho Power (ICIP); Micron Technology, Inc.; and the Idaho Irrigation Pumpers Association, Inc. (IIPA) intervened. *See* Order Nos. 32504 and 32515. The Commission Staff and IIPA subsequently filed comments, and the Company filed a reply. With this Order, the Commission grants the Company's Application as follows.

THE APPLICATION

In 2010 and 2011, the Commission entered Order Nos. 30978 and 32424. Among other things, the Orders established a mechanism by which the Company must share certain revenues with customers. The first Order requires the Company to provide customers with 50% of any earnings above a 10.5% year-end return on equity (ROE). The second Order requires the Company to provide an additional customer benefit; specifically, the Company must book 75% of its share of its Idaho jurisdictional 2011 year-end ROE above 10.5% as an offset against amounts in the Company's Pension Balancing Account that the Company otherwise would collect from customers through rates. With this Application, the Company seeks to share revenues as required by these Orders. Application at 1-3.

According to the Application, the Company calculates its year-end 2011 Idaho jurisdictional ROE to be 12.55%. *Id.* at 3. The Company says the amount above 10.5% equals \$33,007,182. *Id.* at 4. The Company proposes to share this amount with customers in two ways.

PCA Sharing

First, as required by Order No. 30978, the Company proposes to proportionally allocate 50% of this amount to customer classes. After tax gross-up, this 50% amount results in customers receiving a total, \$27,088,897 rate reduction. *Id.* at 4. For the Company's four special contract customers (Micron, Simplot, Department of Energy (INL), and Hoku Materials), the Company proposes to provide a flat, dollar-per-month credit on billed invoices for the usage months of June 2012 through May 2013. *Id.* at 5-6. For all other rate classes, the Company proposes to include allocated revenue-sharing benefits as part of the 2012 PCA filing. *Id.* at 5.

Pension Balancing Account Sharing

Second, as required by Order No. 32424, the Company proposes to provide customers with 75% of its remaining 50% share by reducing the Company's Pension Balancing Account by that amount. After tax gross-up, this amount is \$20,324,173. The Company proposes to apply this \$20 million to the Pension Balancing Account to offset expenses that the Company otherwise would collect from customers through rates. *Id.* at 6.

According to the Company's press release and Customer Notice, the Company's proposal will decrease average billed rates by 3.21%, with the revenue impact by class being: Residential, (3.17%); Small General Service, (3.16%); Large General Service, (3.25%); Large Power, (3.26%); and Irrigation, (3.25%). *See* Press Release at 3-4; Customer Notice at 1-2.

The Company filed the proposed revenue-sharing amounts as an exhibit in this case. The Company also filed its 2012 PCA application on April 13, 2012; that application included an electric rate schedule containing the Company's proposed revenue-sharing amounts. *See* Application at 7. The Company says it will make an appropriate compliance filing when final Orders are received on all proposals to change rates effective June 1, 2012. *Id.*

THE COMMENTS

The Commission Staff and IIPA submitted comments, and the Company submitted reply comments. The parties' comments are summarized below.

Staff Comments

Staff's comments support the Company's Application. Staff concludes the Application is reasonable following a three-step analysis. *See* Staff Comments at 3.

First, Staff analyzed the Company's total system net income and the jurisdictional separation study (JSS). Staff verified that the Company's system net income is $193,632,649, the Idaho jurisdictional share is $180,499,658 for 2011, and the sharing amount over the 10.5% ROE is $33,007,182 for the Idaho jurisdiction. With respect to the sharing amount above the 10.5% ROE, Staff determined that the Company developed jurisdictional separation percentage factors consistent with 2009 and 2010 year-end ROE determinations. Specifically, the Company used third quarter financial information as of September 30, 2011, and the 2010 Federal Energy Regulatory Commission Form 1 allocation factors. Staff confirmed the Company's calculations and agrees that $33,007,182 is the amount that exceeds the 10.5% ROE. *Id.*

Second, Staff verified that the Company proposes to return amounts to customers that are consistent with the Company's revenue-sharing obligations from Commission Order Nos. 30978 and 32424. Staff agrees that the Company should (1) share revenues of $16,503,591 as a direct decrease to customer rates; and (2) offset $12,377,693 against the pension balancing account. These amounts, grossed-up for taxes, respectively are $27,098,897 and $20,324,173. *Id.* at 3-4.

Third, Staff determined that the Company properly allocated the amounts to be returned to each customer class and accurately designed rates to refund those amounts. The Company proposes to allocate the $27,098,897 revenue-sharing benefit to customer classes "based on each class's proportional share of forecasted base revenues for the June 1, 2012, through May 31, 2013, sharing period." For tariff customers, the Company further proposes to decrease energy rates by a uniform ¢/kWh amount within each class. Staff notes that the Company's methodology produces a different ¢/kWh rate for each class, but also an average class decrease of 3.25%. For special contract customers, the Company proposes to return the allocated credits as 1/12 the annual total credit each month for 12 months. The uniform percent decrease of 3.25% of base revenue is an average 3.21% decrease in billed revenue. Staff verified that the Company's calculations are correct. Accordingly, Staff recommended that the Commission approve the Company's proposed rates and amounts. *Id.* at 4.

Based on this analysis, Staff recommended that the Company return $27,098,897 in revenue-sharing benefits to customers through a reduction in base rates, and that the tariff rates and special contract amounts be approved as filed. Staff further recommended that the rates and amounts be included in Schedule 55 along with PCA rates and that the combined rates take effect on June 1, 2012. Lastly, Staff recommended that the Commission approve the Company's requested reduction to the Pension Balancing Account of $20,324,173 for grossed-up revenue sharing; the Company booked this amount to the Pension Balancing Account on December 31, 2011. *Id.* at 4-5.

IIPA Comments

The IIPA's comments argue that Idaho Power used an inappropriate Jurisdictional Separation Study ("JSS"). Specifically, the IIPA notes that while it would generally seem appropriate for the Company to use the same JSS methodology here that it used in the year-end 2009 and 2010 ROE determinations, "the fact is that the Company changed its JSS in its last general rate case," that rates "are now being set on a different set of assumptions," and that it is "inappropriate to set rates using one JSS methodology and reduce rates through a different JSS methodology." *See* IIPA Comments at 2. Further, IIPA argues that the Company inappropriately incorporates "incomplete third quarter allocation factors based upon actual results 9 months" (Actual as of September 30, 2011) and then applies "these actual to a full 12 months of costs at year end December 31, 2011." *Id.* at 3.

The IIPA argues that it would be far more appropriate to use the allocation factors that came out of Idaho Power's last general rate case "on a going forward basis than the third quarter values suggested by the Company." *Id.* at 3 (citing Order No. 32426 in Case No. IPC-E-11-08). *Id.*

The IIPA also notes that the Company used the rate case JSS methodology in the Company's recent filings in Depreciation Case No. IPC-E-12-08 and Boardman Case No. IPC-E-12-09. IIPA states that if the Company used consistent JSS methodology and allocation factors here, customers would receive additional rate-sharing benefits; specifically, an additional $5.5 million reduction to base rates and an additional $4.2 million reduction to the Pension Balancing Account. *Id.* at 4-5.

Company Reply Comments

The Company's reply comments concur with Staff's comments. *See* Company Reply Comments at 3. They also rebut IIPA's comments that the Company should have determined the 2011 actual year-end ROE for this case using the JSS allocation factors that the Company used to determine the revenue deficiency in the rate case. The Company provides three reasons why it should not use the prior JSS methodology and allocation factors here. First, the Company argues that applying normalized, rate case-adjusted allocation factors to actual results of operations is inappropriate and produces counterintuitive results. *Id.* at 3-7. Second, the Company argues that using full-year 2010 Federal Energy Regulatory Commission Form 1 allocation factors applied to actual third quarter 2011 financial results is the most current and accurate way to determine the Idaho-specific actual year end-ROE. *Id.* at 7-8. Third, the Company notes that it is inappropriate to use the revised JSS methodology from the 2011 rate case to allocate actual year-end financial results here because the 2011 rate case factors reflect rate case adjustments that would improperly allocate actual financial results in the context of an actual year-end ROE determination. *Id.* at 8-9.

FINDINGS AND DISCUSSION

We have reviewed the filings in this case, including the Company's Application, the comments from Staff and the IIPA, and the Company's reply comments. Based on our review of the record, we find the Company's revenue-sharing proposal to be fair, just, and reasonable. In doing so, we note that the revenue-sharing funds approved here will offset the rate increase approved in the Company's recent PCA case (Case No. IPC-E-12-17). We find that the revenue-sharing rate decrease approved here will combine with the PCA rate increase to result in rates in Schedule 55 that are fair, just and reasonable.

We agree that the Company correctly calculated the Idaho ROE determination, and we find that the Company used an appropriate JSS methodology and allocation factors in this case. The sharing trigger was met and sharing dollar amounts were primarily attributed to one-time events occurring in 2011. These one-time tax items are not normalized in base rates. It is proper to use the jurisdictional separation percentages based on actual data during the year with the actual results of operation to determine the earnings to be shared from 2011. With respect to the IIPA's argument that the Company should have used the JSS methodology from the rate case, we note that the sharing of actual historical earnings is a different process than decreases or increases in rates based on a normal rate setting process. The depreciation and Boardman cases identified by IIPA (IPC-E-12-08 and IPC-E-12-09) relate to annualized revenue requirements for changes after the last general rate case on a prospective basis. We note that the depreciation stipulation filed by the parties in Case No. IPC-E-12-08 decreases the Company's revenue requirement and, if approved by the Commission, will reduce rates using the JSS proposed in the general rate case.

ORDER

IT IS HEREBY ORDERED that the Company's revenue-sharing proposal is approved.

IT IS FURTHER ORDERED that the Company shall return $27,098,897 in revenue-sharing benefits to customers through a reduction in base rates. These revenue-sharing credits shall combine and offset with the PCA revenue increase from Case No. IPC-E-12-17.

IT IS FURTHER ORDERED that the combined revenue-sharing and PCA rates contained in tariff Schedule No. 55 shall be effective for service on June 1, 2012.

IT IS FURTHER ORDERED that the Company's separate, $20,324,173 reduction to the Pension Balancing Account is approved effective as of December 31, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-12-17 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of May 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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